Make-Whole Payments to External SRE Resources

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Summary of SRE Make-Whole Payment Concerns

- Principle underlying make-whole payments:
  - ✓ Make-whole payments are warranted when *an RTO compels a participant to take an action the causes it to incur a loss*.
- NYISO initially proposed make-whole payments for two things:
  - ✓ Losses at the external resource's node (when generation cost > local nodal prices)
  - ✓ Losses at the interface when the supplier imports into NY
- We agree with the first, but the second should be limited because it violates the principle:
  - ✓ External SRE do not compel suppliers to take an import position since it has the option of scheduling counterflow transactions.
  - ✓ Hence, the supplier can manage the risk of losses at the interface, except when NYISO curtails exports for reliability.

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Interface Settlements Example: 100 MW SRE and No Counterflow Scheduled

	Net Import to NY	Probability	Profit/Loss	Payout
Possible Outcome 1	100	50%	$100	$5,000
Possible Outcome 2	100	50%	($100)	$0
Expected Profit at Interface				**$5,000**

Make-Whole payments cause losses to be zero

- Offering the make-whole payment (initial proposal) guarantees an expected profit to the external supplier because they either:
  - ✓ Profit from the transaction and keep the profit;
  - ✓ Lose on the transaction, which is offset by the make whole payment;
- This is discriminatory because no other resources or transactions are guaranteed an expected process.

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Interface Settlements Example:
100 MW SRE and 100 MW Counterflow

	Net Import to NY	Probability	Profit/Loss	Payout
Possible Outcome 1	0	50%	$100	$0
Possible Outcome 2	0	50%	($100)	$0
Expected Profit at Interface				**$0**

Profits and Losses always zero when counterflow offsets the SRE import

- The risk of potential losses on the settlement for the firm import can be managed by voluntary scheduling of counterflow.
- Completely offsetting a firm import with an exports transaction eliminates the potential loss (but also the potential profit).
- We are not proposing an obligation for suppliers to schedule counterflow transactions, but this example:
  - ✓ Shows that the risk of losses is manageable; and
  - ✓ No make-whole payment is warranted unless a supplier is unable to schedule counterflows (because they've been cut).

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Conclusions

- The initial proposal should be modified consistent with the principle articulated earlier.
- A modest change in the proposal is needed:
  - ✓ Limit the make-whole payment associated with the interface settlement to: *losses that are the result of counterflow transactions by the Supplier curtailed by NYISO for reliability*.
- In addition to being fully consistent with the economic principle, this change will:
  - ✓ Reduce unjustified costs to NYISO customers;
  - ✓ Maintain efficient incentives for the external supplier to manage its position on the interface; and
  - ✓ Provide efficient and reasonable incentives on each interface.